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Market Development Reports

Refining the Role of the Wholesalers in the Retail

Market

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Report Highlights:

Orderly market development requires a clearer definition of the roles of manufacturers, wholesalers, and retailers. This report outlines several critical functions of a wholesaler in South China.

Includes PSD changes: No
Includes Trade Matrix: No
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Guangzhou [CH3], CH

REFINING THE ROLE OF THE WHOLESALERS IN THE RETAIL MARKET

1. Market dynamics in South China has changed the roles of the manufacturers, wholesalers, and retailers. In a sellers market, the wholesalers are kings. In a buyers market, the retailers are kings. South China is in a buyers market mode.
2. It takes many wholesalers and many more retailers to supply the thousands of goods to the market. Mixing the roles of wholesaler and retailer or bypassing the wholesalers may not be in the broader interest of orderly movement of goods and products. Repeated business failures wholesale or retail -- are costly to the regional and national economy.
3. Some retailers are getting bigger and more organized. The new comers are not om and pop operations. They have their buyers and buying departments. Ostensibly, they rely on volume sales to generate profits. In actual business practices, they squeeze the wholesalers and manufacturers for their extra income and bonuses.
4. In addition to demanding credit from wholesalers as the basis for business transactions, retailers have devised schemes to increase their profit margins. They have learned the lesson of not working harder but smarter, primarily at the wholesalers expense. The following table summarizes some of the more common axes in local currency (RMB). US\$1.00=RMB8.265 yuan.

Entry Fee (also called barcode fee): 300 to 3,000 yuan per item, applicable to every item added to sale.
Promotional Fee: 450 to 1,500 yuan per supplier, collectable monthly.
Stacking Fee: Up to 2,000 yuan per supplier.
Shelf Location Fee: 500 to 1,500 yuan per supplier, per month.
Poster Fee: 400 to 5,000 yuan according to usage, collectable from suppliers.
New Shop Fee: 1,000 yuan per supplier per shop as new shops are opened.
Anniversary Fee: 1,000 yuan per supplier per shop.
Holiday Fee: 500 to 2,500 yuan per supplier per shop.
Gains from Gross Sales: 3% of suppliers current monthly sales. Suppliers bear the losses incurred by the retailer promotional activities.
Wear and Tear Recovery: 0.5% of suppliers current monthly sales. Suppliers bear the normal in-shop wear and tear losses

5. Manufacturers squeeze the wholesalers by setting a high sales quota, switching business partners, and establishing direct sales to retailers. Results: Short term gains. Collapsed market. Tarnished reputation.
6. Wholesalers can reinvent themselves by focusing more sharply on their service capability. Extending credits to the retailers and collecting from them are sufficient reasons for having the wholesalers. Promoting a new product and providing logistic and distribution supports are some of their proven successes. No need to reinvent the wheel. Wholesalers can provide more direct product education to the retailers.

7. It is simply impossible for a retailer to source his thousands of product items from various manufacturers. Neither is a manufacturer capable of dealing with thousands of retailers worldwide. Information technology has the capability of matching products with buyers but it cannot build trust and loyalty or settle disputes. Wholesalers are the necessary contact points.
8. The buyers market in South China is chaotic. It requires a new Code of Business Ethics for sustained development. Defining clearly the respective roles of the manufacturers, wholesalers, and retailers in the retail market is a primary task. An impartial group such as the US Agricultural Trade Office or Foreign Commercial Service can help assemble the relevant players for developing such a Code.
9. Prompt payment for products or services received, reasonable gains for investments made, and integrity of sales territory shall be three of the key provisions of the Code.
10. Retailers need to re-orient themselves to the primary task of selling to the consumers to make a profit. They need to recognize having new products introduced to their stores is in fact in their business interest. Asking the wholesalers to share the cost of doing business is reasonable. Demanding a plethora of fees is extortion.
11. Wholesalers need to have the self-discipline to enforce the Code. If a retailer fails to abide by the Code, all wholesalers shall refrain from supplying goods to him. Tough but necessary for the development of an orderly market.
12. Manufacturers need to respond to market needs, gather market information directly from the retailers and consumers but not be engaged in selling directly to the retailers or the consumers. They must not set themselves up as competitors against their wholesalers. They need to trust and yet verify the business practices of their wholesalers. They need to honor the pioneer promoters of their products and provide continuing education for their wholesalers.
13. US exporters to the South China market can safeguard their investment by helping to promote the establishment of a new Code of Business Ethics. Do business only with those interested in orderly and long-term market development.
14. Points to Ponder:
 - a. What extra baggage do you have to carry to supply directly to the retailers?
 - b. Is selling directly to the retailers financially healthy to you in the long run?
 - c. What is the future cost of the profit you just gained or projected to gain?
 - d. Do you have the necessary resources to enter and maintain a new market?
 - e. What are the trade-offs in using and not using a wholesaler?
 - f. If wholesalers do not supply to the retailers, would the latter be still in business?
15. US exporters interested in entering the South China market can contact US Agricultural Trade Office/Guangzhou (ATO/GZ) for support. ATO/GZ can be reached at 011-8620-8667-7553 (Voice); 011-8666-0703 (Fax); or via info@atoguangzhou.org.

